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220334Z Dec 04

UNCLAS SECTION 01 OF 02 ABUJA 002114

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SUBJECT: UPDATE ON NIGERIA'S ECONOMIC REFORMS

1. Summary. Minister of Finance briefed officials of the donor and diplomatic communities December 16 on the progress of policy reforms in Nigeria. She explained why Nigeria's economy is in bad shape, mentioned the remedies she has prescribed, and pointed to the improvement to date. The minister's briefing was helpful, among other reasons because it showed that USAID is pursuing programs that can sustain necessary reforms. End summary.

2. Minister Ngozi Okonjo-Iweala began her presentation by citing reasons why the Nigerian economy is in bad shape, including its slow growth performance, declining productivity, and increased poverty rates. In terms of GDP per capital and other development indicators, the country is much worse off now than it was in 1980. The Minister attributed much of the economic decline over the past 25 years to poor economic management, including high fiscal deficits, institutional decline both in terms of neglect of infrastructure and maintenance, and decline in the quality of the civil service due to harsh military rule. The oil boom era saw the emergence of widespread, deep and embedded corruption. When oil revenues declined, poor public expenditure management led to high fiscal deficits, and current account imbalances in turn led to an increased debt burden and decreased investor confidence.

3. Ngozi stated that according to the latest World Economic Forum survey, the state of the infrastructure is now the number one issue of concern of private sector agents in Nigeria, followed by corruption, and then inadequate financing.

4. Ngozi briefly mentioned NEEDS (National Economic Empowerment and Development Strategy) and its six priority areas of reform: economic management, governance and accountability, public service reform, infrastructure, privatization and liberalization, and public expenditure reform. The minister then highlighted the progress of policy reforms in the following areas:

(a) Macroeconomic stability. The government is on schedule to meet a target of a three percent of GDP fiscal deficit in 2004 and is largely on target in monetary policy, controlling the money supply and reducing inflation from 19 percent to 10-11 percent. Inflation will not have dropped to eleven percent by the end of 2004, but from September 2003 to 2004, inflation was nine percent. On the domestic and external debt issue, the government wants to improve its access to the domestic bond market rather than to access CBN overdraft resources, and to consolidate foreign debt with creditors and reschedule the debt service payments.

(b) Anti-corruption, transparency and accountability. The framework for handling these issues includes the due process requirements, the Extractive Industries Transparency Initiative (EITI), the G-8 transparency initiative, and the Economic and Financial Crimes Commission (EFCC). Nigeria's Independent Corrupt Practices Commission (ICPC) has 55 cases pending before it. While the ICPC has 500 people in custody, the Commission has obtained only one conviction. On legal and judicial reform a draft strategy has been written and will be presented to the economic team.

(c) Public expenditure reforms. Work continues on budget formulation, implementation, and monitoring. On implementation, the Ministry is focusing on paying down contractor arrears; \$40 billion of contractor debt needs to be paid for prior construction projects. Ngozi said Bauchi, Cross River, and Enugu states have initiated SEEDS (State Economic Empowerment and Development Strategy) development plans. Also, the government is moving forward on legislation to lock in reforms and consolidate good governance practices and behavior, such as the Fiscal Responsibility Bill, a procurement bill to lock in the Due Process policy, a tax reform bill, and a bill on EITI on oil transparency.

(d) Public revenue reform including tax reform, customs reform, and tariffs. The ministry is drafting legislation to lower tax rates and streamline tax administration procedures at the federal and state levels; the UK and the

UNDP is supporting these efforts. Nigeria is also moving toward an incentive driven system of tax collections; for example, the Federal Inland Revenue Service and the Customs Service will be able to keep a percentage of the revenues they collect. On customs reform, work has just begun and has a long way to go, at least two to three more years of work. On trade reforms, the Minister mentioned the prospective harmonization of the tariff structure with that of the Economic Community of West African States, and the phase-out of certain import bans by January 2007.

15. The Minister concluded by reiterating the importance of infrastructure and Nigeria's huge infrastructure investment needs, especially electric power, roads, and water.

16. About 50 donor and diplomatic officials attended the Minister's hour-long presentation. USAID and Embassy economic officers attended the event. This report should be credited to USAID's advisor on private sector affairs.

17. Comment. Ngozi presented a good summary of where the government is in major national-level reform areas. Several directly relate to what USAID wants to do; namely, continue work on the national budget process, and extend that work to the state level; tax reform; customs and trade. Significant work is being done on the budget and, to a lesser extent, on tax reform, but customs and trade reforms are lagging. From our perspective, the latter present USAID opportunities to work in new areas that the donor community is not supporting. The lag in trade and customs reforms is a challenge, as it calls for answers why such reforms have not been initiated (corruption, political will?). Regarding trade, Ngozi mentioned only that the GON will eventually harmonize its tariffs, will eliminate some bans, and will consider redesigning some export incentives. She said little about comprehensive trade capacity building that USAID could build upon, maybe because trade and export promotion fall under other ministries. Recently, USAID was given copies of a national export promotion strategy prepared by a consultant to the Nigeria Export Promotion Council. The strategy has elements that USAID might support through its planned "REFORMS" activity or with additional TRADE Initiative monies. REFORMS will be a new economic policy reform and private sector development program. For the uninitiated, REFORMS stands for Restructured Economic Framework for Openness and Macroeconomic Stability, and TRADE for Trade for African Development and Enterprise.

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